

Year 2000 Standard Report Form

EXAMINER'S COMMENTS AND CONCLUSIONS

Scope and Objectives

A Year 2000 Review of <SBName> of <City>, <State> (<Sbshort>) was conducted from <Start-date> through <End-date>. The review was conducted according to the Year 2000 guidelines of the Federal Financial Institutions Examination Council by representatives of the <Agency> /<Region or District>. Our objectives of this review were to:

- determine whether the organization has an effective plan for identifying, renovating, testing and implementing solutions for Year 2000 processing;
- assess the effect of the Year 2000 efforts on the organizations strategic and operating plans;
- determine whether the organization has effectively coordinated Year 2000 processing capabilities with its customers, vendors and partners;
- assess the soundness of internal controls for the Year 2000 process; and identify whether further corrective action may be necessary to assure an appropriate level of attention to Year 2000 processing capabilities.

Overall Conclusions

Overall, we found <include overall EVALUATION sentences here, use the following table for guidance: >

SATISFACTORY
<p>Year 2000 efforts of financial institutions and independent data centers are considered "Satisfactory" if they exhibit acceptable performance in all key phases of the year 2000 project management process as set forth in the May 5, 1997 FFIEC Interagency Statement on the year 2000 and subsequent guidance documents. Performance is satisfactory when project weaknesses are minor in nature and can be readily corrected within the existing project management framework. The institution's remediation progress to date meets or nearly meets expectations laid out in its year 2000 project plan. Senior management and the board recognize and understand year 2000 risk, are active in overseeing institutional corrective efforts, and have ensured that the necessary resources are available to address this risk area.</p> <p>Independent Data Centers - The program of a data center evaluated as "Satisfactory" should have the strengths identified above. A satisfactory evaluation is appropriate if the data center also is actively communicating with client banks and makes its year 2000 project objectives and benchmarks available to them.</p>
NEEDS IMPROVEMENT
<p>Year 2000 efforts of financial institution and independent data centers are evaluated as "Needs Improvement" if they exhibit less than satisfactory performance in any of the key phases of the year 2000 project management processes outlined below. Project weaknesses are evident, even if deficiencies are correctable within the existing project management framework. The institution's remediation progress to date is behind the schedule laid out in its year 2000 project plan. Senior management or the board is not fully aware of the status of year 2000 corrective efforts, may not have committed sufficient financial or human resources to address this risk, or may not fully understand year 2000 implications.</p> <p>Independent Data Centers - Program weaknesses identified above should be reflected in a data center evaluated as "Needs Improvement." This evaluation may also be appropriate if vendor communication with client banks is sporadic or if project objectives and benchmarks are difficult to obtain.</p>
UNSATISFACTORY
<p>Year 2000 efforts of financial institutions and data centers are "Unsatisfactory" if they exhibit poor performance in any of the key phases of the year 2000 project management process outlined below. Project weaknesses are serious in nature and are not easily corrected within the existing project management framework. The institution's remediation progress to date is seriously behind the schedule laid out in its year 2000 project plan. Senior management and the board do not understand or recognize the impact that the year 2000 will have on the institution. Management or the board commitment is limited or their oversight activities are not evident.</p> <p>Independent Data Centers - When a data center exhibits program weaknesses identified above, it should be evaluated as "Unsatisfactory." This evaluation may also be appropriate if a data centers' communication with client banks is unclear and inaccurate, or if project objectives and benchmarks are not available.</p>

Recommendations

- If any

Supporting Comments

Note: The FFIEC Interagency Statement dated 5/5/97, outlined several phases and important aspects essential for effective Year 2000 projects. These phases and important aspects are noted in small print. Findings are presented as they relate to the respective topics.

Awareness

The organization should establish an awareness program concerning the Year 2000 problem and gain executive level support for the resources necessary to perform compliance work. Establish a Year 2000 program team and develop an overall strategy that encompasses in-house systems, service bureaus for systems that are outsourced, vendors, auditors, customers and suppliers (including correspondents).

For Example...

- *Has this phase been completed?*
- *Is the Board of Directors and Senior Management aware and understand the risks associated with Year 2000?*
- *What is the Board's and Senior Management's level of support?*
- *Has a Corporate-wide strategic plan been developed, submitted to the Board for review and approval, and disseminated to all divisions/departments affected?*

Assessment

Assess the size and complexity of the problem and detail the magnitude of the effort necessary to address Year 2000 issues. This phase must identify all hardware, software, networks, automated teller machines, and other various processing platforms, and customer and vendor interdependencies affected by the Year 2000 date change. The assessment must go beyond information systems and include environmental systems that are dependent on embedded microchips, such as security systems, elevators and vaults.

For Example:

- *Does the Plan assess the size and complexity of the problem?*
- *Has management identified all areas that will be affected by the Year 2000 date change?*
- *Does the company have in-house expertise to fully assess all affected areas, or have consulting firms been hired?*
- *What applications has management decided that they will no longer support?*

Management must also evaluate the Year 2000 effect on other business initiatives. The assessment should also consider the potential effect that merges and acquisitions, major system development, corporate alliances, and system interdependencies will have on existing systems and/or potential Year 2000 issues that may arise from acquired systems.

For Example:

- *Does the assessment consider the potential effect that mergers, acquisitions, system developments, corporate alliances, and system interdependencies will have on existing systems?*

The financial institution or vendor should also identify resource needs, establish time frames and sequencing of Year 2000 efforts. Resource needs include appropriately skilled personnel, contractors, vendor support, budget allocations and hardware capacity. This phase should clearly identify corporate accountability throughout the project, and policies should define reporting, monitoring and notification requirements. Finally contingency plans should be developed to cover unforeseen obstacles during the renovation and validation phases and include plans to deal with lesser priority systems that would be fixed later in the renovation phase.

For Example:

- *Has management consider resources needed?*
- *Have time-frames and deadlines been established?*
- *Have budgets been established?*
- *Have system capacity been considered?*

Renovation

This phase includes code enhancements, hardware and software upgrades, system replacements, vendor certification, and other associated changes. Work should be prioritized based on information gathered during the assessment phase. For institutions relying on outside servicers or third-party software providers, ongoing discussions and monitoring of vendor progress are necessary.

For Example:

- *Is management replacing or repairing applications/data sensitive areas?*
- *Are all areas/applications been prioritized based on the assessment phase?*
- *Detail applications which have already been renovated, which ones are in process, and which ones have not been initiated.*
- *Are projects being managed to maximize resources?*

Validation

Testing is a multifaceted process that is critical to the Year 2000 project and inherent in each phase of the project management plan. This process includes the testing of incremental changes to hardware and software components. In addition to testing upgraded components, connections with other systems must be verified, and all changes should be accepted by internal and external users. Management should establish controls to assure the effective and timely completion of all hardware and software testing prior to final implementation. As with the renovation phase, institutions should be in ongoing discussions with their vendors on the success of their validation efforts.

For Example:

- *What areas/applications have been successfully tested?*
- *What areas/applications have not been tested?*
- *Are proper control procedures been observed throughout the testing process?*
- *Methods to ensure final implementation does not occur until successful testing is conducted.*
- *Is testing including vendor-certified Year 2000 compliant areas/applications?*
- *Are tests including compatibility with other systems and customer products?*
- *Is management in ongoing discussions with it's vendors to ensure success of the validation efforts?*

Implementation

Systems should be certified as Year 2000 compliant and be accepted by the business users. For any system failing certification, the business effect must be assessed clearly and the organization's Year 2000 contingency plans should be implemented. Any potentially noncompliant mission-critical system should be brought to the attention of executive management immediately for resolution. In addition, this phase must ensure that any new systems or subsequent changes to verified systems are compliant with Year 2000 requirements.

For Example:

- *Is reporting process adequate to provide information on project status and potentially non-compliant mission-critical applications/areas? Are new systems or subsequent changes been verified to ensure they are Year 2000 compliant?*
- *Are contingency plans in place or implemented for any system failing certification?*

Year 2000 External Issues

Reliance on Vendors

The agencies find that some institutions, relying on third-party data processing servicers or purchased software applications software, have Not taken a proactive approach in ensuring Year 2000 compliance by their vendors. Management should evaluate vendor plans and actively monitor project milestones. Institutions should determine if vendor contract terms can be revised to include Year 2000 covenants. Management should be aware of vendor-specific responsibilities and their institutions vulnerability if the vendor cannot meet contractual obligations.

For Example:

- *Have all critical vendors been identified?*
- *Are vendor plans periodically received and monitored?*
- *Do vendor plans include project milestones?*
- *Are customers informed of meetings and projects to ensure Year 2000 compliance?*
- *Can vendor contracts be revised to include Year 2000 covenants?*
- *Has an internal vulnerability assessment been conducted in case the vendor cannot meet contractual obligations?*

Alternative service or software providers should be considered if vendor solutions or time frames are inadequate. If purchased products or services belong to larger, integrated systems, institutions' testing and certification processes will have to be fully coordinated with their vendor's Year 2000 testing. Management must also ensure that vendors have the capacity (both financial and personnel) to complete the

project and are willing to certify Year 2000 compliance.

For Example:

- *Has management considered alternative services or software providers if current vendor cannot achieve Year 2000 compliance within recommended time frames?*
- *Is management coordinating its Year 2000 testing and certification efforts with every product vendor and integrated system utilized?*
- *Is management ensured vendor's have the capacity to complete it's project and certify Year 2000 compliance?*

Data Exchange

The Year 2000 problem also poses a risk to the quality of information that institutions exchange with other firms. Large volumes of date sensitive data are transferred electronically between financial institutions, their customer, and their regulators. Institutions will need to know how methods of data exchange differ among institutions, across vendors, and between other institutions. Therefore, Year 2000 planning should allow sufficient time to assess the effect that Year 2000 solutions will have on data transfers. The project plan should also include testing and verification, as appropriate, of data exchanges with clearing associations, governmental entities, customers, and international institutions.

For Example:

- *Have all systems that support other business units' data transfers been identified?*
- *Are compatible solutions being sought out?*

Year 2000 Operating Issues

Replacement vs. Repair

Cost and timing considerations will affect an institution's decision to replace or repair strategic systems. Those factors may dictate that some systems will be repaired in the short term and strategically replaced sometime after January 1, 2000. Conversely, it may be more cost effective to accelerate the replacement of strategic systems.

For Example:

- *Has management considered the cost and timing on decisions to replace or repair strategic systems?*
- *Has management determined those applications it will no longer support?*
- *Have minimum system requirements changed for those applications that have been renovated?*

Cost and Monitoring

As the Year 2000 approaches and the urgency of fixing problems increases, the costs of obtaining/replacing qualified staff to address the problems will undoubtedly rise, perhaps significantly. Some experts believe that the limited availability of technical support will be a major obstacle to making systems Year 2000 compliant. Knowledge of market conditions for skilled programmers and developing programs to retain key personnel may be necessary to ensure that adequate resources are available throughout the projects life.

For Example:

- *Has management considered the costs of obtaining and/or replacing qualified staff?*

Mergers and Acquisitions (M&As)

The extent of Year 2000 conversion efforts will bear directly on corporate M&As strategies since conversions resulting from M&As will compete for project management and technical resources. Acquisition strategies should include the institutions Year 2000 assessment to the extent possible.

For Example:

- *Is it a requirement that all possible merges and acquisitions require due diligence of Year 2000?*

Remote Locations

Remote or overseas operations also need to devote attention to Year 2000 issues. In particular, management information systems for business that run semi-autonomously from the head office must be included in the institutions system inventory and plans. To the extent that such systems serve as critical controls for business operations, they could expose the institution to significant undetected vulnerabilities. Appropriate staff members throughout the organization must be aware of the risks associated with the Year 2000 issue and how they might be affected.

For Example:

- *If remote or overseas locations that run semi-autonomously are encountered, are they included and inventoried in Year 2000 compliance plans?*

Contracts

Legal issues may arise from the lack of specificity in contract terms dealing with Year 2000 issues. Institutions should modify existing contracts which do not specifically address Year 2000 compliance by the vendor. Otherwise conflicts may result regarding the commitment and responsibility to assure Year 2000 compliance. Current and future purchases should require Year 2000 certification. If contract changes or modifications are refused, then the institutions should consider replacing the service or product.

For Example:

- *Has management considered legal issues stemming from ambiguity in contracts regarding Year 2000 issues?*
- *Have contracts been modified to address Year 2000 compliance by the vendor?*
- *Future purchases must include Year 2000 covenants and certification.*

Leap Year

All Year 2000 plans need to address the leap year (February 29, 2000) issue. All date and calculation routines need to be reviewed to ensure that leap year calculations are Year 2000 certified.

For Example:

- *Does the Year 2000 testing process ensure the leap year date calculations are properly handled?*

/s/ <Examiner-1>
Examiner-in-Charge
<Agency>

/s/ <Examiner-2>
<Agency>